# LEGISLATIVE AUDIT COMMISSION

Review of
Department of Commerce and Economic Opportunity
Two Years Ended June 30, 2004

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**REVIEW: 4241**
**DEPARTMENT OF COMMERCE AND ECONOMIC OPPORTUNITY**
**TWO YEARS ENDED JUNE 30, 2004**

**FINDINGS/RECOMMENDATIONS - 11**

**ACCEPTED - 3**
**IMPLEMENTED - 8**

**REPEATED RECOMMENDATIONS - 1**
**PRIOR AUDIT FINDINGS/RECOMMENDATIONS - 8**

This review summarizes the auditors' reports of the Illinois Department of Commerce and Economic Opportunity for the two years ended June 30, 2004, filed with the Legislative Audit Commission April 6, 2005. The auditors performed a compliance examination in accordance with State law and *Government Auditing Standards*.

The Department of Commerce and Economic Opportunity (DCEO), formerly, the Department of Commerce and Community Affairs (DCCA), was created in 1979 to provide a wide range of services designed to promote economic development in Illinois. Offices are maintained in Springfield, Chicago, Collinsville, Danville, Effingham, Kankakee, Macomb, Marion, Peoria, Rock Island, and Rockford. Additionally, the Department has foreign offices in Brussels, Hong Kong, Tokyo, Mexico City, Budapest, Warsaw, Shanghai, Johannesburg, and Toronto. DCCA is functionally organized into seven bureaus: Economic Development, Business Development, Community Development, Energy and Recycling, Technology and Industrial Competitiveness, and Tourism. The Bureau of Workforce Development is a recent addition and was previously a part of the Department of Employment Security. The Department also oversees Illinois First Grants, the Film Bureau, the Illinois Trade Office, and the Coal Development and Marketing Bureau.

During the period under review, the following individuals served as Director:

- Pam McDonough 7/1/02-11/20/02
- Joseph Hannon 11/21/02-2/3/03
- Jack Lavin 2/4/03-6/30/04

Jack Lavin became the Director in February 2003 and still serves in that capacity. Director Lavin was not previously employed by the Department.

According to the Department's service efforts and accomplishments listed in the report, 337 new small businesses were created in the State in FY03. The Trade Office assisted 2,233 clients/companies, resulting in the creation and retention of 1,819 jobs. Illinois was ranked sixth in total exports. The Industrial Training Program provided skills upgrade training to over 51,000 Illinois workers. 27,000 jobs were created or retained for Illinois in FY04 compared to 21,383 in FY03. Over 2 million people visited Illinois or made travel inquiries in FY04, compared to 1.4 million in FY03, and over 12,700 temporary jobs were created by the film industry in 2004 compared to 7,070 in 2003.

The average number of employees by division in the years indicated was as follows:

| | 2004 | 2003 | 2002 |
|---|---|---|---|
| General Administration | 104 | 120 | 150 |
| Bureau of Tourism | 28 | 28 | 18 |
| Bureau of Workforce Development | 55 | ** | |
| Bureau of Technology & Industrial Competitiveness | 34 | 36 | 39 |
| Bureau of Business Development | 94 | 92 | 84 |
| Office of Coal Development | 13 | 12 | 14 |
| Film Office | 8 | 8 | 8 |
| Trade Office | 20 | 19 | 22 |
| Bureau of Community Development | 84 | 81 | 92 |
| Bureau of Energy Conservation | 32 | 34 | * |
| Bureau of Recycling & Waste Management | 31 | 19 | 74 |
| Illinois First | 16 | 19 | 17 |
| **TOTAL** | **519** | **485** | **518** |

* The Bureau of Energy Conservation was included in the Bureau of Recycling & Waste Management during FY02.

**The Bureau of Workforce Development was added in FY04 upon transfer of Workforce programs from the Department of Employment Security.

### Expenditures From Appropriations

The General Assembly appropriated a total of $2,119,874,545 from 55 different funds to the Department of Commerce and Community Affairs in FY04, an increase of $111.9 million, or 5.6%, over FY03. Expenditures were $844.6 million in FY03 and $944.8 million in FY04, an increase of almost $100.3 million, or 11.9%. Appendix A summarizes expenditures by fund, while Appendix B compares expenditures by object for FY04 through FY02. The overall increase in funding is due primarily to the transfer of the Workforce Training Fund from the Department of Employment Security to DCEO, which totaled about $200 million. Funding decreases which totaled $103 million in the Capital Development Fund, Fund for Illinois' Future, and the Build Illinois Bond Fund were generally related to fewer Illinois First projects.

Lapse period expenditures were almost $147.3 million, or 15.6%. Lapse period spending in previous years was around 5.5%. Expenditures incurred prior to June 30 totaling about $66.3 million were paid during the lapse period due to this fund normally being reappropriated to the next fiscal year. However for FY05, funds for certain projects were not reappropriated causing the Department to issue the remainder of the grant funds during the lapse period to projects that were completed in FY04. $29 million in funds related to Workforce Training were also expended in the lapse period.

## Cash Receipts

Appendix C is a summary of the Department's cash receipts for FY04 and FY03. Total cash receipts increased from $238,615,122 in FY03 to $405,544,636 in FY04. Most of the increase is due to the transfer of Federal Workforce Training to the Department of Employment Security to DCEO. The majority of the Department's receipts are drawdowns on grants awarded by various federal agencies and are directly related to changes in those funds' expenditure levels.

## Property and Equipment

Appendix D provides a summary of property and equipment for FY04 and FY03. The Department's assets, represented almost solely by equipment, increased from $12,565,609 as of July 1, 2002 to $13,475,222 as of June 30, 2004.

## Loans Receivable

At June 30, 2004 the Department had $26,764,000 in loans outstanding, with $1,434,000 determined to be uncollectible. Of the $26.76 million in loans outstanding, the vast majority was current. The Department uses the Office of the Comptroller's offset system and the Attorney General's Office to collect overdue receivable balances.

## Accountants' Findings and Recommendations

Condensed below are the 11 findings and recommendations presented in the compliance examination report. There was one repeated recommendation. The following recommendations are classified on the basis of updated information provided by Scott Harry, Chief Financial Officer, and received via electronic mail on January 13, 2006.

## Accepted or Implemented

1. **Only make payments for efficiency initiatives billings from line item appropriations where savings would be anticipated to occur. Further the Department should seek an explanation from the Department of Central Management Services as to how savings levels were calculated, or otherwise arrived at, and how savings achieved or anticipated impact the Department's budget.**

**Findings:** The Department received four FY04 billings totaling $1.7 million from CMS for savings from efficiency initiatives. The initiatives and amounts billed to the Department were:

- Procurement Efficiency $1,263,380.00

**Accepted or Implemented - continued**

| | |
|---|---|
| • Information Technology | 410,299.00 |
| • Vehicle Fleet Management | 20,334.00 |
| • Online Legal Research Consolidation | 11,999.60 |

The auditors questioned whether the appropriate appropriations were used to pay for the anticipated savings. For example, part of the Vehicle Fleet billing was not paid from the Department's Operation of Auto Equipment appropriation. Similarly, Information Technology billings were not paid from EDP-related appropriation lines. The Department made payment for the billings not from line item appropriations where the cost savings were anticipated to have occurred, but according to Department staff, spread the savings to be realized among the program funds over which it controls. The Department planned to reconcile budgeted savings to actual savings, but reports were not provided by CMS to the Department. The Department used:

- $456,000 from the Tourism Promotion Fund to pay toward the Procurement and Information Technology billings;
- $61,000 from the Tobacco Settlement Recovery Fund to pay toward the Information Technology billing;
- $50,000 from Expenses Relating to Compliance with the Belgium Social Security System to pay toward the Procurement billing;
- $32,685 from the Renewable Energy Resources Trust Fund to pay toward the Procurement billing; and
- $69,938 from the Energy Efficiency Trust Fund to pay toward the Procurement billing.

Overall the Department paid almost $1.2 million from Awards and Grants and Lump Sum and other purposes toward the Procurement and Information Technology billings.

**Response:** Accepted. The Department will only make Efficiency Initiative Revolving Fund payments from appropriations where savings are anticipated to occur.

**Updated Response:** Implemented. In FY05, the Department made Efficiency Initiative Revolving Fund (EIRF) payments from appropriations where savings were identified based on documentation that was provided by the Department of Central Management Services. There currently have been no EIRF billings or payments in FY06.

2. **Conduct an extensive study to determine the feasibility and effectiveness of the Customer Information System (CIS) and whether the system will meet the Department's long term needs. Make a final decision regarding a solution to the CIS situation as soon as possible to reduce the time and funds invested in a system that does not meet the Department's needs, and ensure funds are expended in an effective manner. Ensure all future projects are developed in accordance with acceptable system development standards, and include total cost projections and adequate documentation. (Repeated-2002)**

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**Findings**: The Customer Information System (CIS) did not meet the needs of the Department and was still not adequately documented. The Department has invested approximately $4 million in CIS, and has spent over $2.2 million on contractors to develop and maintain CIS.

The goal of the CIS project was to move toward an enterprise approach with a consistent data structure, consistent user interface, integrated information, and flexibility. However, as outlined in the Department's April 2004 Vision Statement, there was near universal dissatisfaction with CIS, and many users have developed their own spreadsheet and database applications to meet their own needs.

The Department had still not performed a detailed analysis to determine the total estimated cost to complete the existing CIS. Although the existing system is not meeting the Department's needs, significant time and dollars continued to be expended on CIS due to the Department's uncertainty whether CIS would be completed as originally intended, upgraded, or completely replaced.

The Department placed significant dependence on the availability of contractors to support and maintain CIS. However, if these contractors were to be unavailable, the lack of systems documentation would make it difficult for Department staff or other contractors to maintain the existing CIS.

**Updated Response:** Accepted. The Department weighed the options of whether to complete the initial Customer Information System (CIS) design, upgrade the system or replace the system. The Department's Information Technology Steering Committee decided to replace and phase out CIS. The Department will need to continue to use CIS until a new system is in place.

In July 2004, the requirements and processes necessary to re-engineer the CIS Application to a Microsoft.NET platform were formulated. DCEO established the major components of the infrastructure for Microsoft.NET during the period July 2004 to December 2004.

Immediately subsequent to making the decision to replace CIS, the Department began development of a new systems plan consistent with acceptable system development standards. DCEO submitted a Procurement Business Case, budget, project charter, financial analysis and other system requirements to CMS for the new system (InSite System) in April 2005.

DCEO is continuing to pursue development of the InSite System with CMS. DCEO, upon CMS' direction, has submitted various system plan revisions for the InSite System in September 2005 and January 2006. Once CMS authorizes the InSite System, the Department estimates the project duration will be approximately nine months.

**Accepted or Implemented - continued**

The Department is currently utilizing the Central Management Services' (CMS) Project Management framework for the InSite System and all other major development and enhancements, which includes total cost projections and formal documentation standards to ensure resources are used effectively to meet the Department's objectives.

3. **Ensure independent reviews of major computer systems are performed. If the newly formed Illinois Office of Internal Audit is to perform the reviews, the Department should ensure the Office is informed of all major computer system development projects.**

**Findings:** During the year, the Department had significant computer system development activities including the Workforce Investment Act Customer Information System. An independent review of computer system development projects or major modifications to computer systems was not performed.

**Updated Response:** Implemented. The Department has implemented a process to notify the Illinois Office of Internal Audits (IOIA) about new and major modifications to DCEO's computer systems. DCEO continues to send the IOIA information on all information technology projects and request various systems to be reviewed. The IOIA reviews our project requests and determines if they are major new computer systems or major modifications to existing systems. The IOIA will conduct a risk assessment of potentially eligible systems. The IOIA will then complete a systems review if they believe it is necessary per the requirements of the Financial Control and Internal Auditing Act.

4. **Develop policies and procedures to ensure compliance with the Data Security on State Computers Act and associated Department of Central Management Services requirements.**

**Findings:** The Department did not properly clear data from computer equipment prior to transfer to the State's Surplus Property Warehouse as required. The auditors reviewed five of the Department's units that had been transferred to Surplus, and four of the five units tested contained readable data.

**Updated Response:** Implemented. The Department, in conjunction with the Department of Central Management Services (CMS), developed policies and procedures to ensure compliance with the Data Security on State Computers Act (the Act). These procedures require the newly consolidated CMS infrastructure staff to determine which computers and related equipment are no longer needed. DCEO and CMS follow the procedures to ensure the Department is in compliance with the Act.

**5. Comply with the Internal Revenue Service Publication and the Comptroller's Bulletin and implement controls to ensure employees complete the proper documentation and are charged the correct amount of fringe benefits on payroll warrants.**

**Findings:** The Department did not have adequate policies and procedures in place to ensure employees assigned State vehicles for their personal use were charged the correct amount for fringe benefits. The auditors noted during testing that all three employees that were assigned a State vehicle for personal use were not charged for the fringe benefit during FY03 or FY04. The three employees should have been charged a total of $2,652 for fringe benefits during FY03 and FY04.

**Updated Response:** Implemented. The Division of Management Operations, the unit responsible for managing DCEO's State vehicles, implemented a procedure to notify the Human Resource Office when a vehicle is permanently assigned. Management Operations also notifies the person with the assigned vehicle to contact the Human Resources Office to complete all required paperwork. The Human Resources Office is responsible for ensuring all paperwork is completed and filed.

**6. Comply with the timekeeping requirements of the State Officials and Employees Ethics Act by preparing and maintaining the required timesheets for all State employees.**

**Findings:** The Department had personnel policies regarding timekeeping, but the Department only required "Senior Staff and Policy Making Employees" to maintain a daily timesheet which documents the time spent each day on official State business. The remainder of the Department's employees was not required to maintain any daily timesheet. The Department had an average of 519 employees at June 30, 2004 and they only required 65 employees to prepare timesheets.

**Response:** Accepted. The Department uses the CMS' timekeeping system to maintain accurate daily attendance and timekeeping records for employees. The Department was operating under the assumption that CMS' timekeeping system was adequate in terms of compliance with the intent of the State Officials and Employees Ethics Act (the Act) for non-management employees. The Department's management employees have kept separate timesheets for the Act in addition to the timesheets required for CMS' timekeeping system. Section 5-5(a) of the Act requires the Governor to adopt and implement policies for all State employees of the executive branch under his jurisdiction. The Department has notified the Governor's Office of this finding and will continue to work with them to determine an appropriate course of action to comply with the intent of the Act.

**7. Comply with travel rules and regulations. Additionally, review travel vouchers to ensure the information is sufficient and reasonable and approved appropriately.**

**Accepted or Implemented - continued**

**Findings:** The Department did not exercise adequate control over travel expenditures. During detail testing of 100% of travel expenditures for 10 travelers, one traveler had the following issues:

- Insufficient documentation for reason of travel. Twelve of 29 travel vouchers merely stated the purpose of travel was for “Economic Development—All travel was for meetings/contacts for economic development.”
- The Department did not submit a request form for out-of-state travel to be approved by the Governor’s Office of Management and Budget in a timely manner. Three out of five out-of-state request forms were submitted to GOMB 16-21 days late. Two of the out-of-state trips, GOMB did not approve until after the trip was taken. GOMB originally denied the third request; however, the traveler took the trip without approval. The Department appealed the denial and it was approved five months after the trip was taken.
- The traveler was reimbursed for two separate trips that occurred at the same time, but were in two different locations. The questionable reimbursement totaled $24.

**Response:** Accepted. The Department will ensure travel vouchers contain a more specific purpose of trip and reimbursements are in compliance with travel rules and regulations. The Department also received reimbursement from the traveler for the questionable reimbursement of $23.76. Staff will continue to pre-audit vouchers to ensure information is sufficient and reasonable before they are sent to the Office of the Comptroller.

**Updated Response:** Implemented.

**8. Submit to the General Assembly all required reports by the applicable dates of each year as required by statute.**

**Findings:** The Department did not file the following required reports during the examination period:

- The Liquor Control Act of 1934 required the Department to review the activities of the Grape and Wine Resources Council and report by January 1, 2004 to the Governor and General Assembly on whether the funding for the Council should continue.
- The Environmental Protection Act required the Department to conduct studies of the effect of all State and federal sulfur dioxide regulations and emission standards on the use of Illinois coal and other fuels, and report the results to the Governor and General Assembly by July 1, 2002 and July 1, 2004.
- The Illinois Promotion Act required the Department to establish and maintain an affirmative action program designed to promote equal employment opportunity and eliminate the effects of past discrimination and to submit a detailed plan to the

General Assembly prior to March 1st of each year. The Department did not prepare and maintain an affirmative action plan for FY03 and FY04.

**Response:** Accepted. The Department will either file these reports as required by statute or seek legislation to change the filing requirements.

**Updated Response:** Accepted. The Department filed a report of the activities of the Grape and Wine Resources Council's activities to the Governor and General Assembly in March 2005. The Department also submitted a report to the General Assembly in August 2005 on the Department's plan of maintaining an affirmative action program per the Illinois Promotion Act. This report covered fiscal years 2003 through 2005. The Department will ensure this report is filed by March 1 of each fiscal year. The next biennial report on sulfur dioxide regulations and emission standards as required by the Environmental Promotion Act is due on July 1, 2006.

**9. Comply with the Illinois Administrative Code and send the required notification letters to the Tourism Grant applicants or seek a rule change to the Illinois Administrative Code.**

**Findings:** The Department did not timely notify Tourism grant applicants of their application status. During detail testing of Tourism grant applications, the auditors noted the following:

- The Department did not notify the Tourism grant applicant for four of seven Tourism Marketing Partnership applications and two of two Tourism Private Sector applications as to whether their application was complete or if a deficiency existed. The Department notified one of seven Tourism Marketing Partnership grant applicants 13 days late. The Administrative Code requires the Department to notify the applicant whether an application is complete within 15 business days after the Department receives the application.
- The Department did not notify the Tourism grant applicant for three of three International Tourism applications that their application was received and complete. The administrative Code requires the Department to issue a receipt to the applicant acknowledging the date of receipt and whether the application is complete within 10 business days after the Department receives the application.
- The following grant applicants were not notified as to whether their application was accepted or rejected:

    Two of two Tourism Attraction Development applications;
    Six of six Local Tourism and Convention Bureau applications;
    Two of two Regional Tourism Development Organization applications;
    Three of three International Tourism applications;
    Five of seven Tourism Marketing partnership applications; and
    One of two Tourism Private Sector applications.

In addition, the Department was three days late in notifying one of two Tourism Private Sector applications. The Administrative Code requires the Department to notify the applicant that the application has been approved or rejected within 60 days from the date an application is determined to be complete.

**Accepted or Implemented - concluded**

**Updated Response:** Implemented. Tourism program staff is complying with the Illinois Administrative Code by notifying grant applicants within the required timeframes.

**10. Comply with the Department's Audit Management and Resolution Procedures to ensure audit reports are reviewed timely. We further recommend the Department ensure that all deliverables received from grantees complies with the grant agreement requirements.**

**Findings:** The Department did not review audit reports for Technology and Industrial Program grants timely. The auditors noted:

- Two of ten grantees' audit reports, for grants totaling more than $3.5 million, were reviewed late. One was reviewed nine days late and the other report had not been reviewed at all.
- One of ten grantees, for grants totaling $316,589, submitted its audit report 238 days late. The audit report consisted of a photocopy of the 2002 balance sheet, which does not meet the requirements set forth by the grant agreement.

**Updated Response:** Implemented. The External Audit unit has added additional staff to ensure audit reports are reviewed timely. The unit has also implemented a procedure whereby the audit report intake staff member performs a cursory review of all reports when received to ensure that those reports submitted meet agency requirements.

**11. Comply with Department's Accounting Office Policy and Procedure Manual and follow procedures to ensure that the Department approves close out packages in a timely manner.**

**Findings:** The Department did not have supervisors approve grant close out packages timely. During testing, the auditors noted the following:

- Three of 32 Technology and Industrial Program grants were approved from 26 to 58 working days after the grant was reviewed and closed out by the program accountant.
- Seven of 25 Energy and Recycling Program grants were approved from 25 to 59 working days after the grant was reviewed and closed out by the program accountant.
- Four of 20 Coal Development Program grants were approved from 24 to 41 working days after the grant was reviewed and closed out by the program accountant.
- One of 18 Workforce Investment Act grants was approved 55 working days after the grant was reviewed and closed out by the program accountant.

- Two of 15 Miscellaneous State Program grants were approved from 39 to 82 working days after the grant was reviewed and closed out by the program accountant.

The Policy and Procedure Manual requires unit supervisors be responsible for reviewing and approving/disapproving close out packages timely after completion by the program accountant. Department personnel clarified "timely manner" as to mean 10 to 15 working days.

**Response:** Implemented. The close-out packages identified in the finding were not approved in a timely manner. Corrective action, including new close-out tracking reports and procedures, has already been implemented to ensure close-outs are reviewed and approved by unit supervisors within the time requirements.

## Emergency Purchases

The Illinois Purchasing Act (30 ILCS 505/1) states that "the principle of competitive bidding and economical procurement practices shall be applicable to all purchases and contracts ..." The law also recognizes that there will be emergency situations when it will be impossible to conduct bidding. It provides a general exemption for emergencies "involving public health, public safety, or where immediate expenditure is necessary for repairs to State property in order to protect against further loss of or damage ... prevent or minimize serious disruption in State services or to insure the integrity of State records. The chief procurement officer may promulgate rules extending the circumstances by which a purchasing agency may make 'quick purchases', including but not limited to items available at a discount for a limited period of time."

State agencies are required to file an affidavit with the Auditor General for emergency procurements that are an exception to the competitive bidding requirements per the Illinois Purchasing Act. The affidavit is to set forth the circumstance requiring the emergency purchase. The Commission receives quarterly reports of all emergency purchases from the Office of the Auditor General. The Legislative Audit Commission is directed to review the purchases and to comment on abuses of the exemption.

During FY04, the Department filed five affidavits for emergency purchases totaling $1,939,809.00 for extensions of contracts to operate various components of the Tourist Information Centers and the call center which fields telephone, mail and website inquires about Illinois tourism.

## Headquarters Designations

The State Finance Act requires all State agencies to make semiannual headquarters reports to the Legislative Audit Commission. Each State agency is required to file reports of all of its officers and employees for whom official headquarters have been designated at any location other than that at which their official duties require them to spend the largest part of their working time.

The Department of Commerce and Community Affairs indicated as of July 16, 2004 that 54 employees had headquarters designated at a location other than that at which their duties require them to spend the largest part of their working time.